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PRESS RELEASE
OF THE NATIONAL BANK OF MOLDOVA

Within the meeting of October 31, 2013, the Council of Administration of the NBM adopted the following decision by unanimous vote:

1. **to maintain the base rate applied on main short-term monetary policy operations at the current level of 3.5 percent annually;**
2. **to maintain the interest rates:**
   - **on overnight loans at the current level of 6.5 percent annually;**
   - **on overnight deposits at the current level of 0.5 percent annually;**
3. **to maintain the required reserves ratio from financial means attracted in MDL and foreign currency at the current level of 14.0 percent of the base.**

The Council of Administration of the NBM adopted the Inflation Report no.4, 2013 which will be presented at the press conference of November 7, 2013.

The annual inflation rate for September 2013 reached the level of 3.9 percent or by 0.2 percentage points higher compared to the previous month, due to the increase of the contribution of food prices. During the last 20 months, the annual inflation rate is maintained within the range of variation of ± 1.5 percentage points from 5.0 percent target.

The annual inflation rate in the third quarter of 2013 confirmed the assumptions set out in the inflation forecast published in the Inflation Report of August 2013, being by 0.1 percentage points higher than projected.

The annual rate of core inflation[1] amounted to 4.4 percent in September 2013, increasing by 0.1 percentage points from the previous month.

In the second quarter of 2013, GDP increased by 6.1 percent compared to the same period of the last year, after recording in the first quarter of this year an increase of 3.5 percent. Domestic demand contributed to the positive growth and foreign demand has influenced insignificantly the GDP development. By categories of resources, GDP growth in the second quarter of 2013 was driven by favorable developments in all sectors of the economy. The depreciation of the national currency in the first nine months of this year against the currencies of major trading partners had a stimulating effect on

[1] Core inflation is calculated by the NBS, excluding prices that are outside the influence of monetary policy promoted by the NBM, such as food and beverages, fuel, products and services with regulated prices. Data established and published from January 2012 are calculated by the NBS according to the modification of Annex no.2 of "Methodology for the calculation of core inflation index", approved by joint order of the National Bank of Moldova and National Bureau of Statistics N8-07-01203/6 of January 19, 2012 (the modification refers to the inclusion of prices for remote communication services and medicines in regulated prices).

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the national economy branches and diminished the negative impact of a less favorable external environment.

In terms of consumer demand, the annual average real wage growth in the economy was 5.2 percent during the period of July - August 2013, by 4.5 percentage points more than in the second quarter of 2013. Cash remittances to individuals through official channels increased by 8.8 percent in the first eight months of 2013 compared to the same period last year.

Lending and savings processes recorded divergent developments in the third quarter of 2013. The volume of new granted loans during the reporting period increased by 4.2 percent, while the volume of new attracted deposits decreased by 3.2 percent compared to the third quarter of 2012.

The average rate on new granted loans in national currency recorded a new historical low level of 11.79 percent in September 2013 compared to the level of 12.03 recorded in June 2013. The interest rates on deposits attracted in national currency decreased by 0.17 percentage points compared with June 2013, reaching the level of 6.62 percent in September 2013.

The monetary policy continues to be affected by the complexity of the balance of risks, with the prevalence of disinflationary risks. Disinflationary risks arise mainly from the reduction in international food prices and the depreciation of the currencies of major trading partners. Gradual economic recovery in the European Union, international oil prices increase on the backdrop of increased tensions in the Middle East and stimulating domestic demand can help mitigate the negative effects of disinflation.

Moderate depreciation of the national currency this year is consistent with the monetary policy promoted by the NBM of direct inflation targeting and helps to mitigate the disinflationary pressures by boosting the domestic demand. In case of a persistent excess of supply of foreign currency, the National Bank will intervene in the foreign exchange market carefully as a purchaser of foreign currency to supply the foreign exchange reserves but without distorting or jeopardizing the inflation targeting in the medium term.

In these circumstances, the Council of Administration of the NBM decided within its meeting of October 31, 2013 to maintain the incentive nature of the monetary policy and by unanimous vote to maintain the monetary policy interest rate at the level of 3.5 percent annually. It was also decided to maintain the required reserves ratio in MDL and in foreign currency at the current level of 14.0 percent of the base.

This decision aims to further ensure favorable monetary conditions to stimulate lending and the economic activity and those related to anchoring inflation expectations by maintaining inflation close to the target of 5.0 percent in the medium term, with a possible deviation of ± 1.5 percentage points.

The economy growth above its potential over the next eight quarters will be due to the creation of real expansionary monetary conditions. National Bank will maintain the incentive nature of the

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monetary policy through both real interest rate channel and through the real effective exchange rate channel, thereby keeping the annual inflation rate close to 5.0 percent target in the medium term.

The new round of forecasting places the annual average inflation rate for the years 2013 and 2014 at a level of 4.5 percent and 4.7 percent respectively or by 0.2 percentage points or 0.9 percentage points more than in the previous round of forecast in July 2013. The increase in inflation projection is largely the result of including the anticipated growth of interurban tariffs from 1 November 2013 as well as water and sewerage tariffs in some localities (Ungheni and Comrat) conducted in August and September. Over the next eight quarters, the inflation forecast will be within the range of variation of ± 1.5 percentage points from 5.0 percent target.

In order to support the proper functioning of the interbank money market, the NBM will continue to manage firmly the liquidity excess through sterilization operations, according to the announced schedule.

The National Bank will continue to offer banks liquidity, according to the schedule announced for the years 2013-2015, through term REPO operations of 28 days, at a fixed rate equal to the base rate of the National Bank plus a margin of 0.25 points percentage.

NBM will further monitor and anticipate the domestic and international economic environment developments, including foreign trade conditions, so that by the flexibility of operational framework specific for the inflation targeting strategy to ensure price stability in the medium term.

The next meeting of the Council of Administration of the NBM on monetary policy will take place on November 28, 2013, according to the announced schedule.

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